



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

1 February 2021

[Translation]

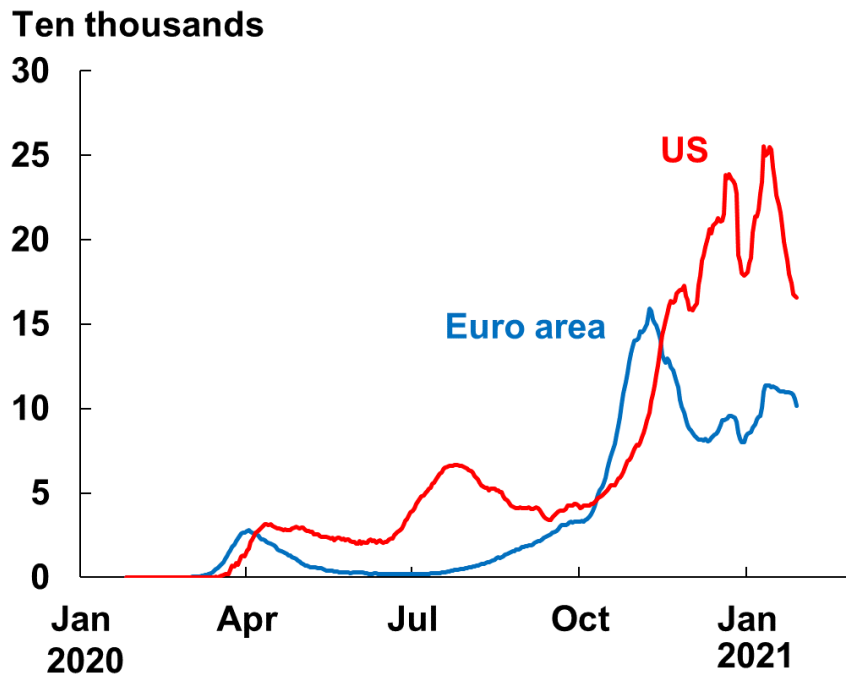


- 1. Assessment of Risk to Hong Kong's Financial Stability**
2. Banking Supervision
3. Financial Infrastructure
4. Development of Financial Market
5. Investment Performance of the Exchange Fund
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A NEW WAVE OF PANDEMIC IS IMPEDING ECONOMIC RECOVERY

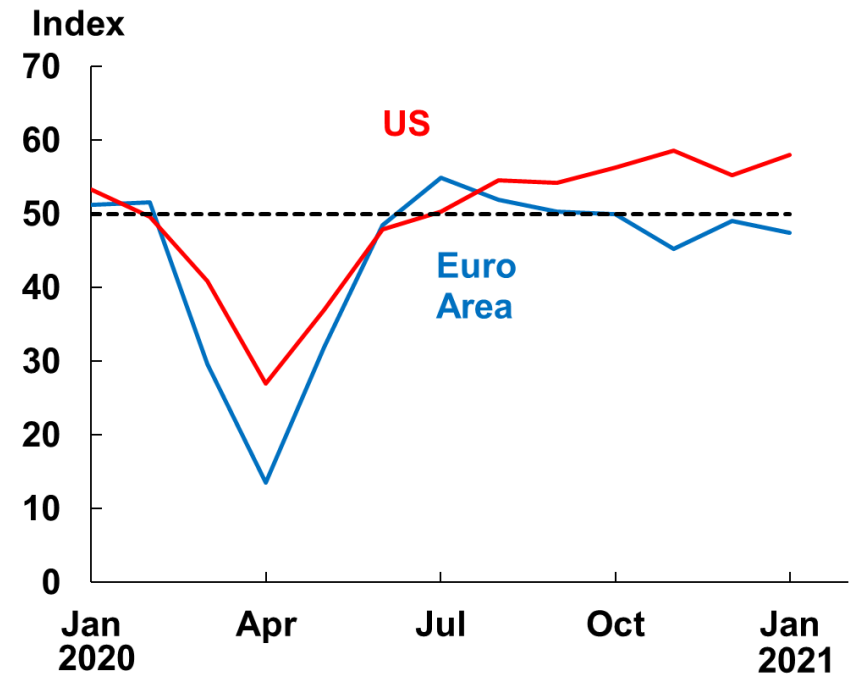
A new wave of pandemic



Note: Number of new cases in 7-day moving average.

Source: World Health Organisation

Mixed Composite PMIs

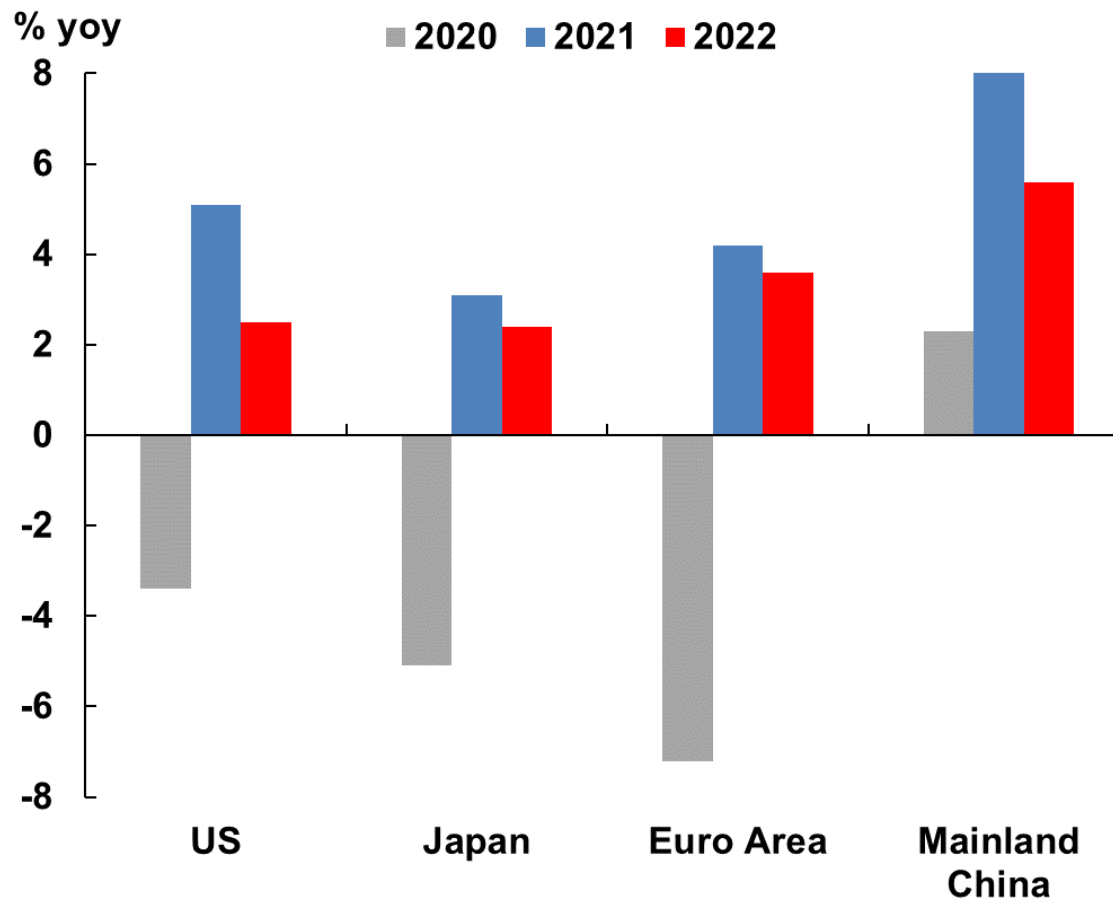


Source: Markit



VACCINE ROLLOUT HELPS IMPROVE ECONOMIC OUTLOOK

IMF's Growth Projections

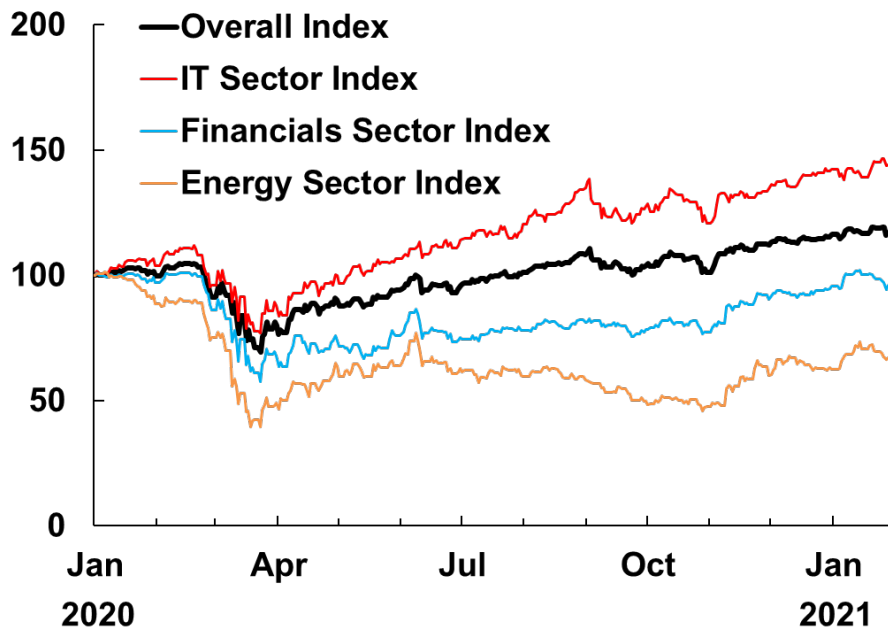




FINANCIAL MARKETS TURN MORE BUOYANT

Equity markets rose across the board

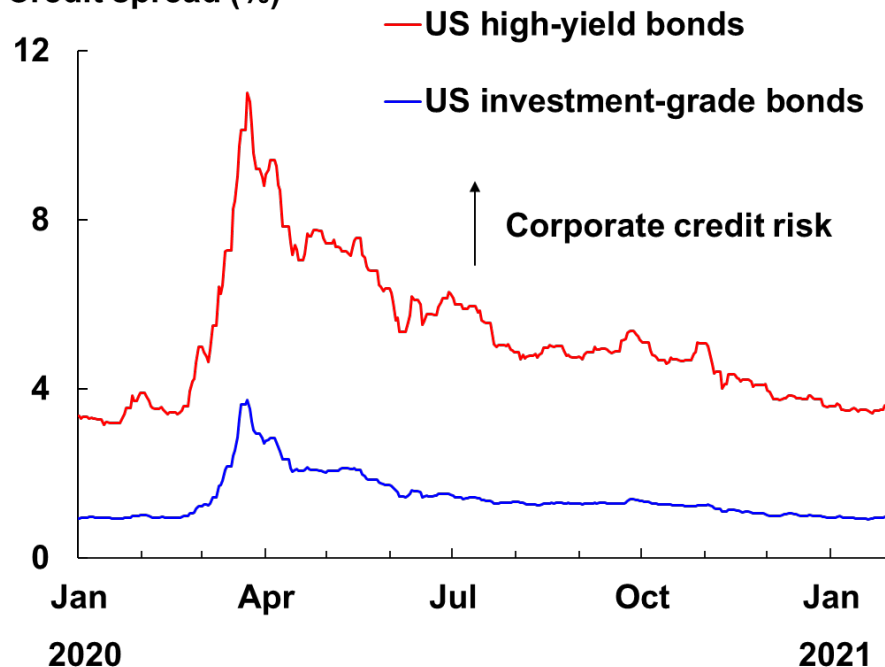
S&P 500 (31 Dec 2019 = 100)



Source: Bloomberg

Credit spreads continued to narrow

Credit spread (%)



Note: Credit risk of the US high yield (investment grade) bonds shown above is measured by the average option-adjusted spread of the Bloomberg-Barclays US High Yield (Aggregate) Index.

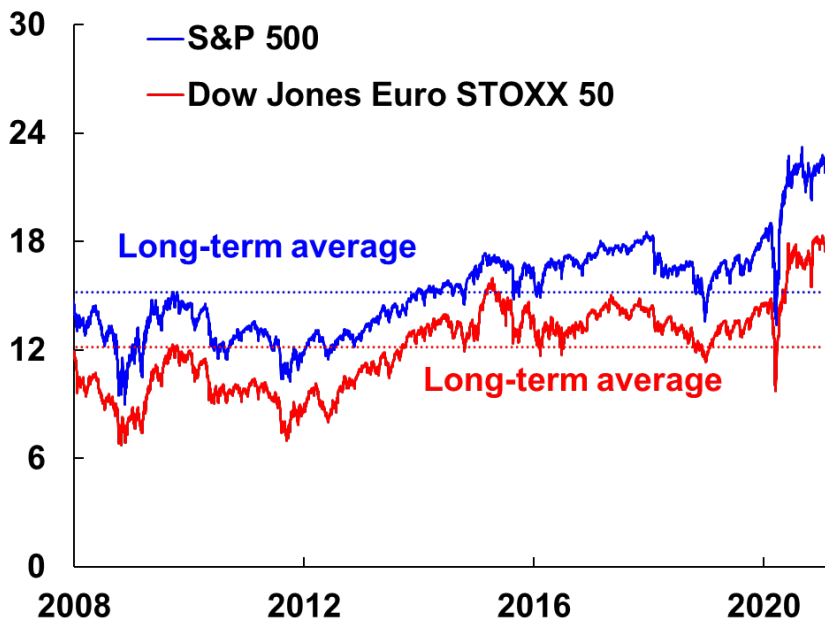
Source: Bloomberg



THE FINANCIAL SECTOR IS FACING A NUMBER OF DOWNSIDE RISKS

Disconnect between financial markets and the real economy

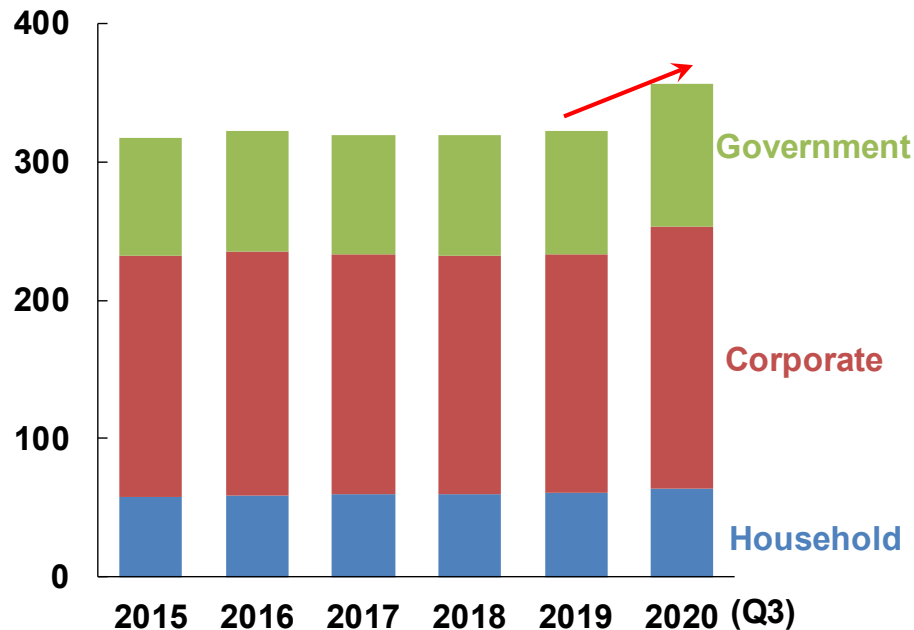
12 month-forward P/E ratio



Source: Bloomberg

Surging debt worldwide

Debt as % world GDP

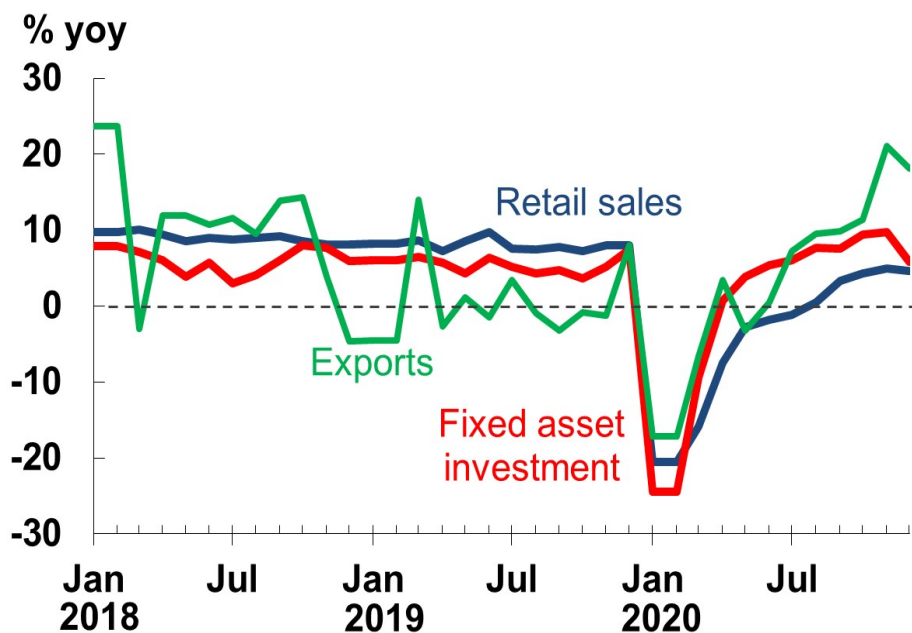


Source: IIF



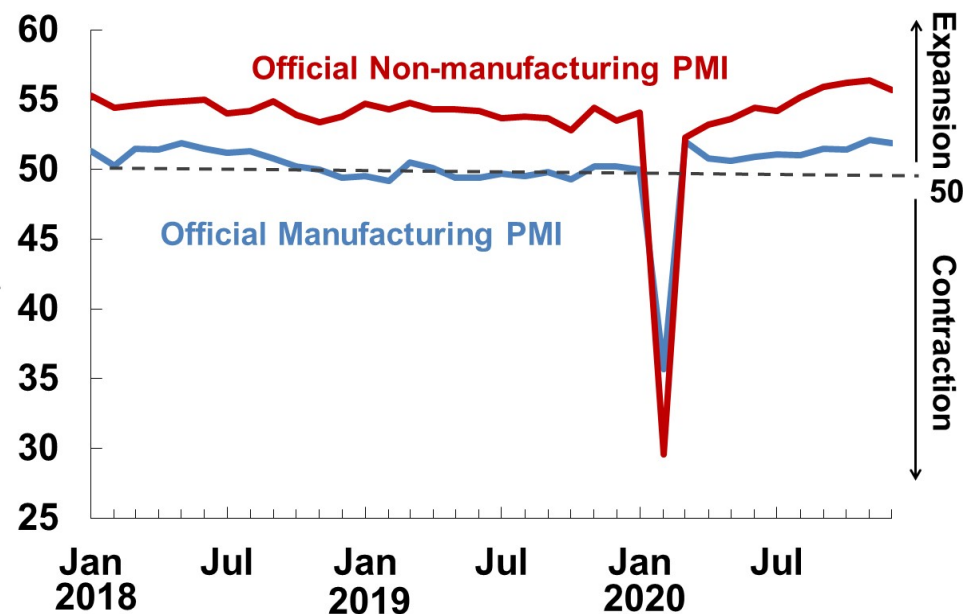
PACE OF ECONOMIC RECOVERY ON THE MAINLAND QUICKENS

Major economic indicators recover steadily



Source: National Bureau of Statistics of China

Business sentiment improves

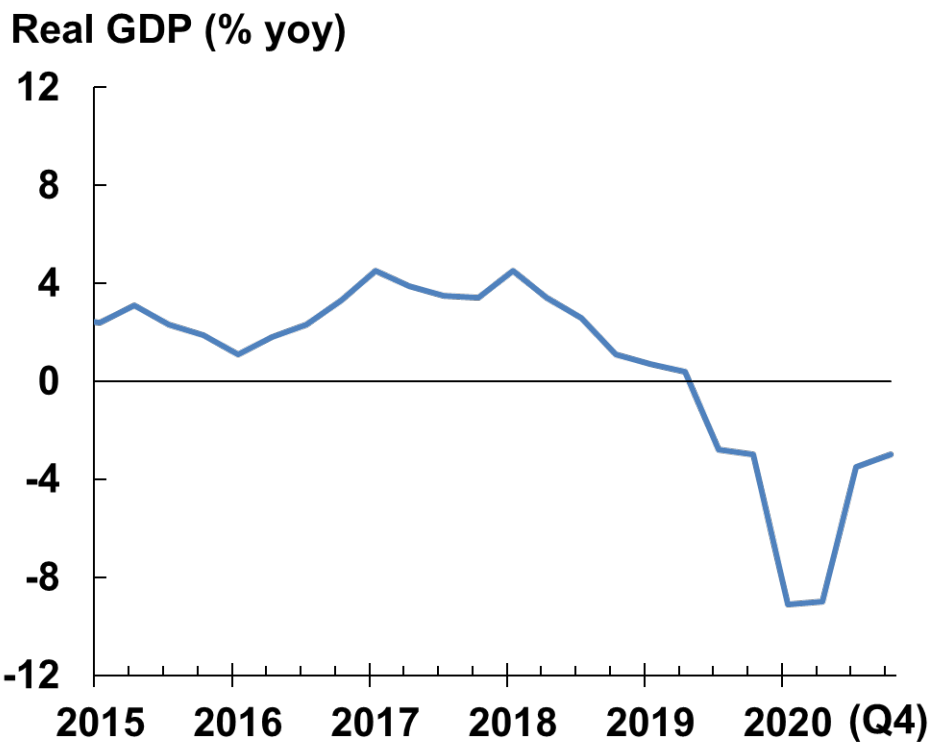


Source: National Bureau of Statistics of China



HONG KONG ECONOMY STABILISES BUT REMAINS WEAK

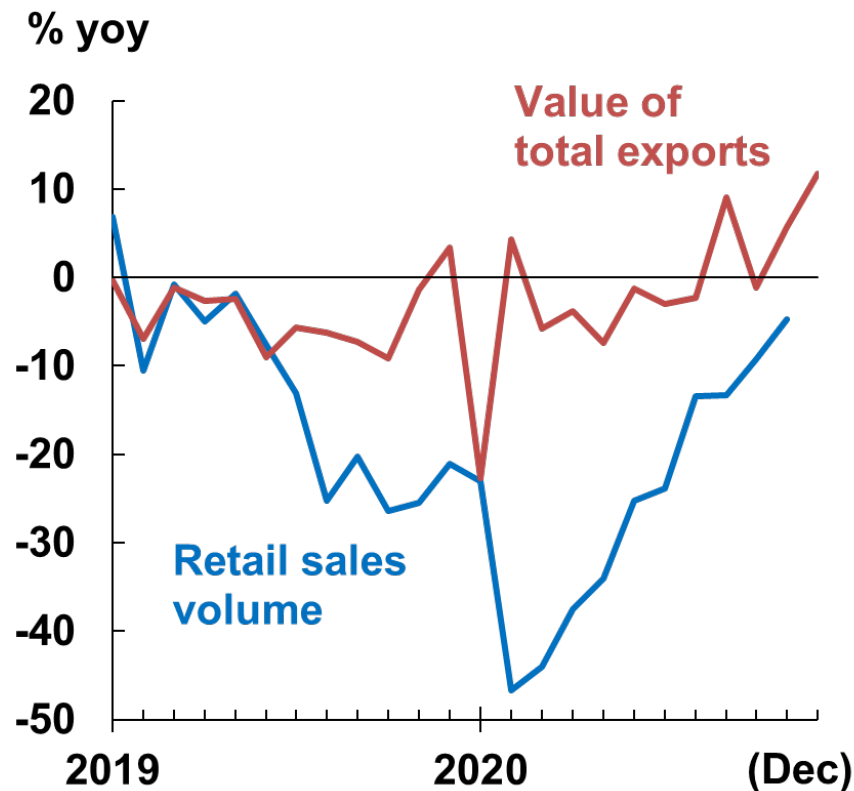
Economic contraction narrows



Note: Q4 figures are advance estimates.

Source: C&SD

Exports stabilise but retail sales remain weak



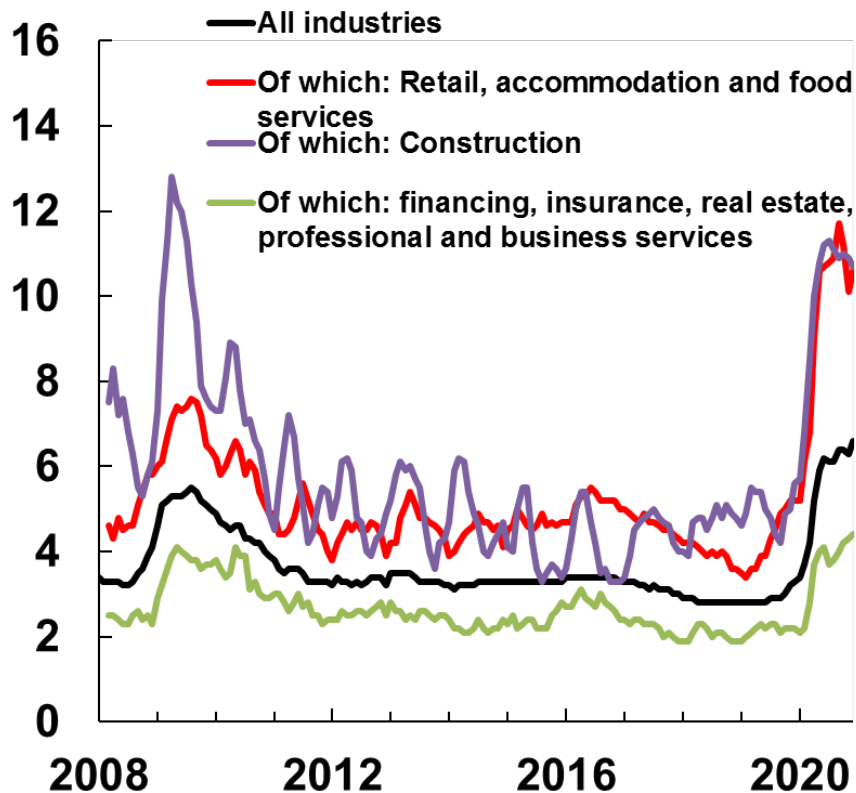
Source: C&SD



LABOUR MARKET IS STILL UNDER PRESSURE

Unemployment rate remains high

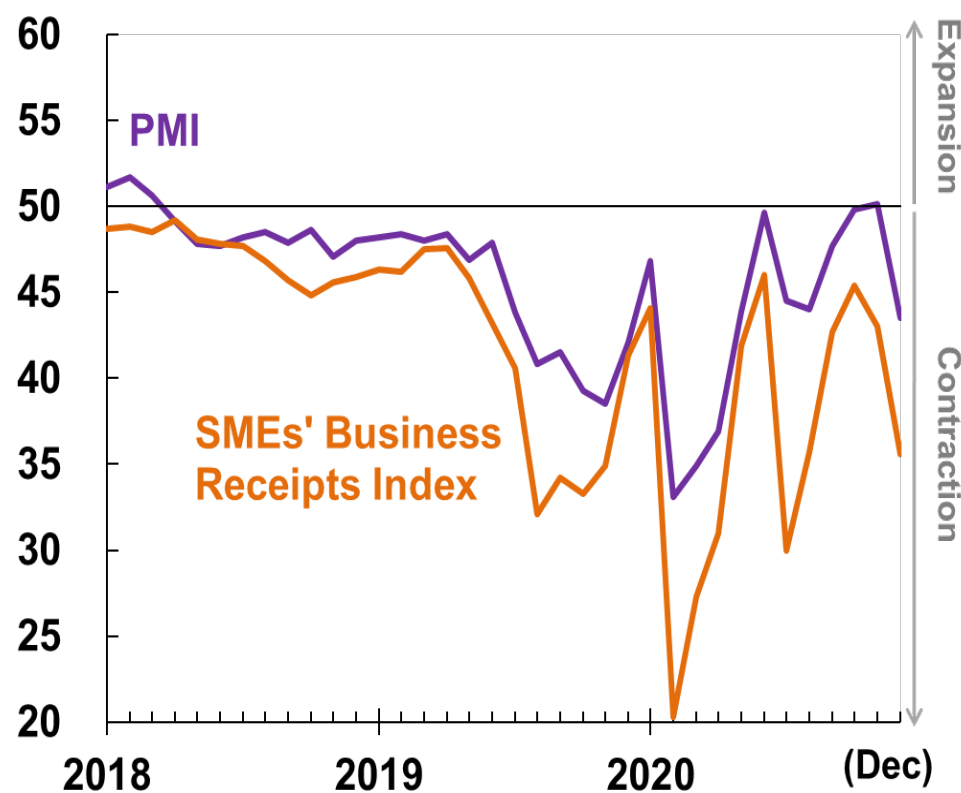
% of labor force



Source : C&SD

Business sentiment deteriorates

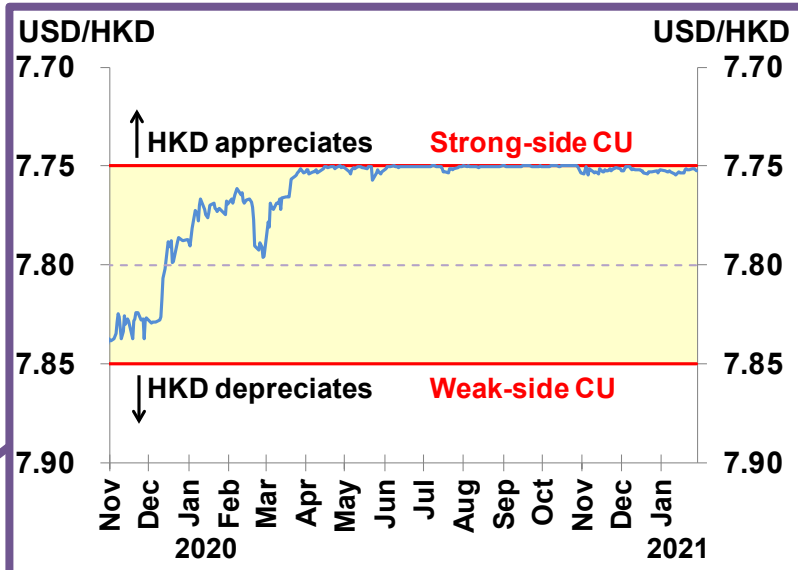
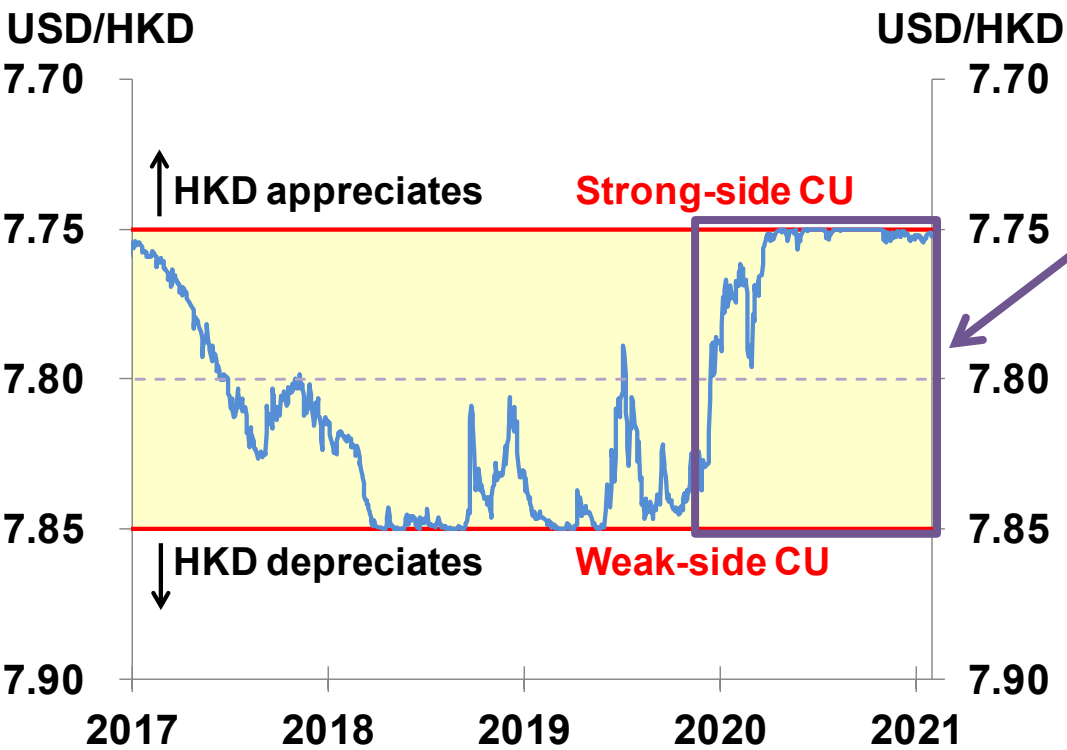
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Sources: C&SD, IHS Markit



ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: HKD REMAINS STABLE



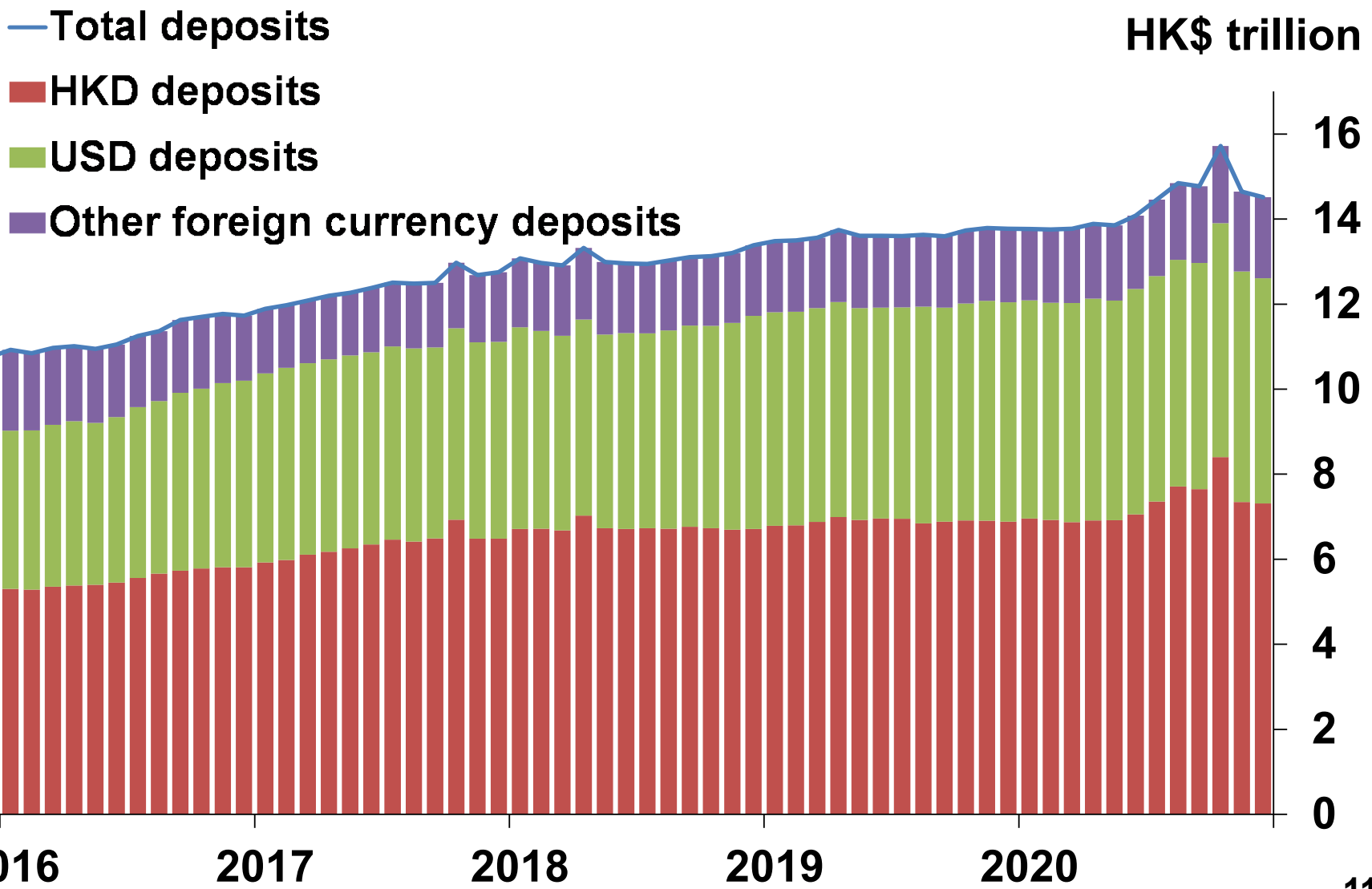
Year	Trigger of Weak-side CU	Outflows from HKD (HK\$ bn)
2018 Apr - Aug	27 times	103.5
2019 Jan - Mar	8 times	22.1

Year	Trigger of Strong-side CU	Inflows into HKD (HK\$ bn)
2020 Apr	6 times	20.7
2020 Jun - Oct	79 times	362.8



ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY:

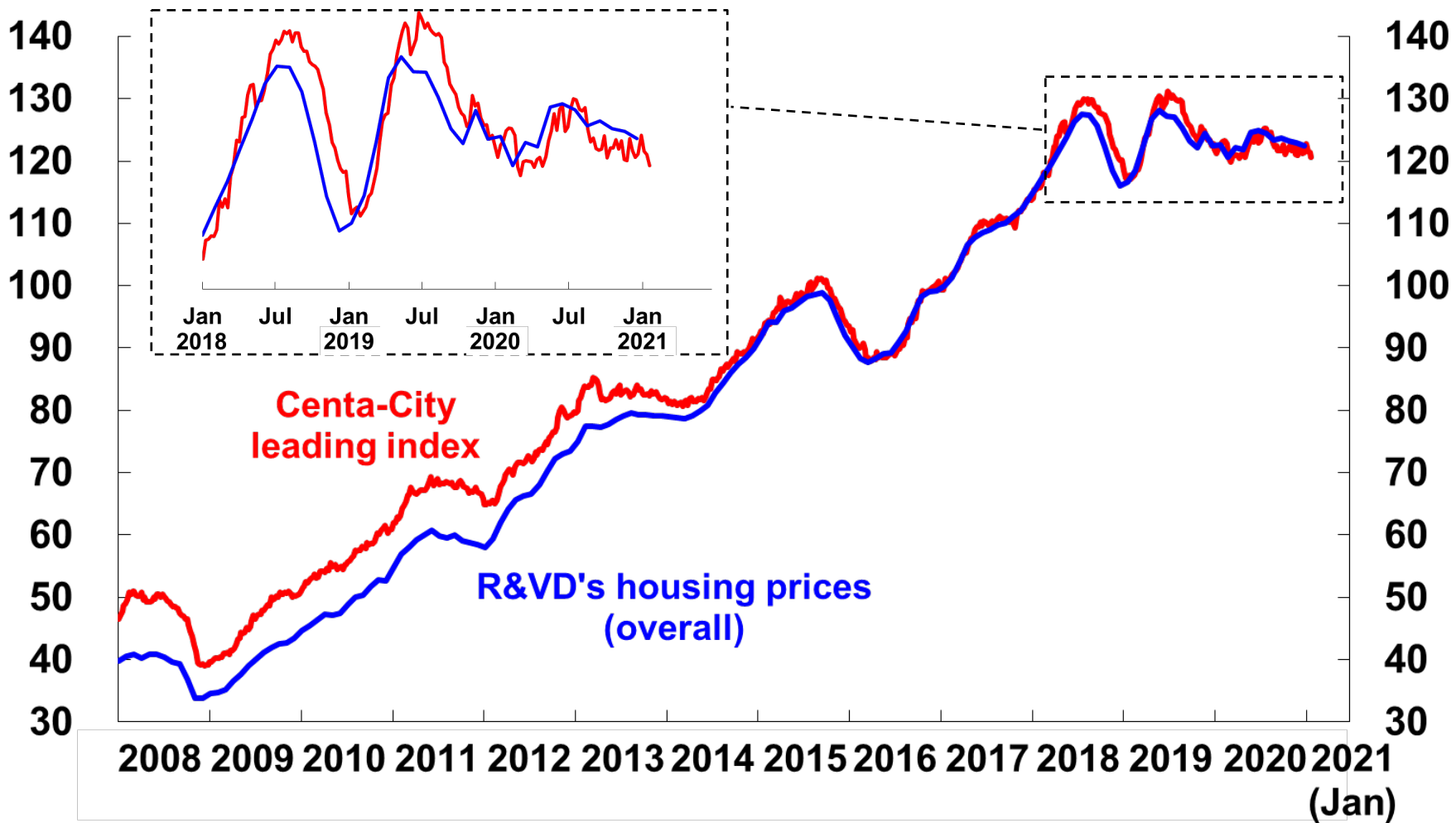
BANK DEPOSITS REMAIN STABLE





ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: PROPERTY PRICES FLUCTUATE

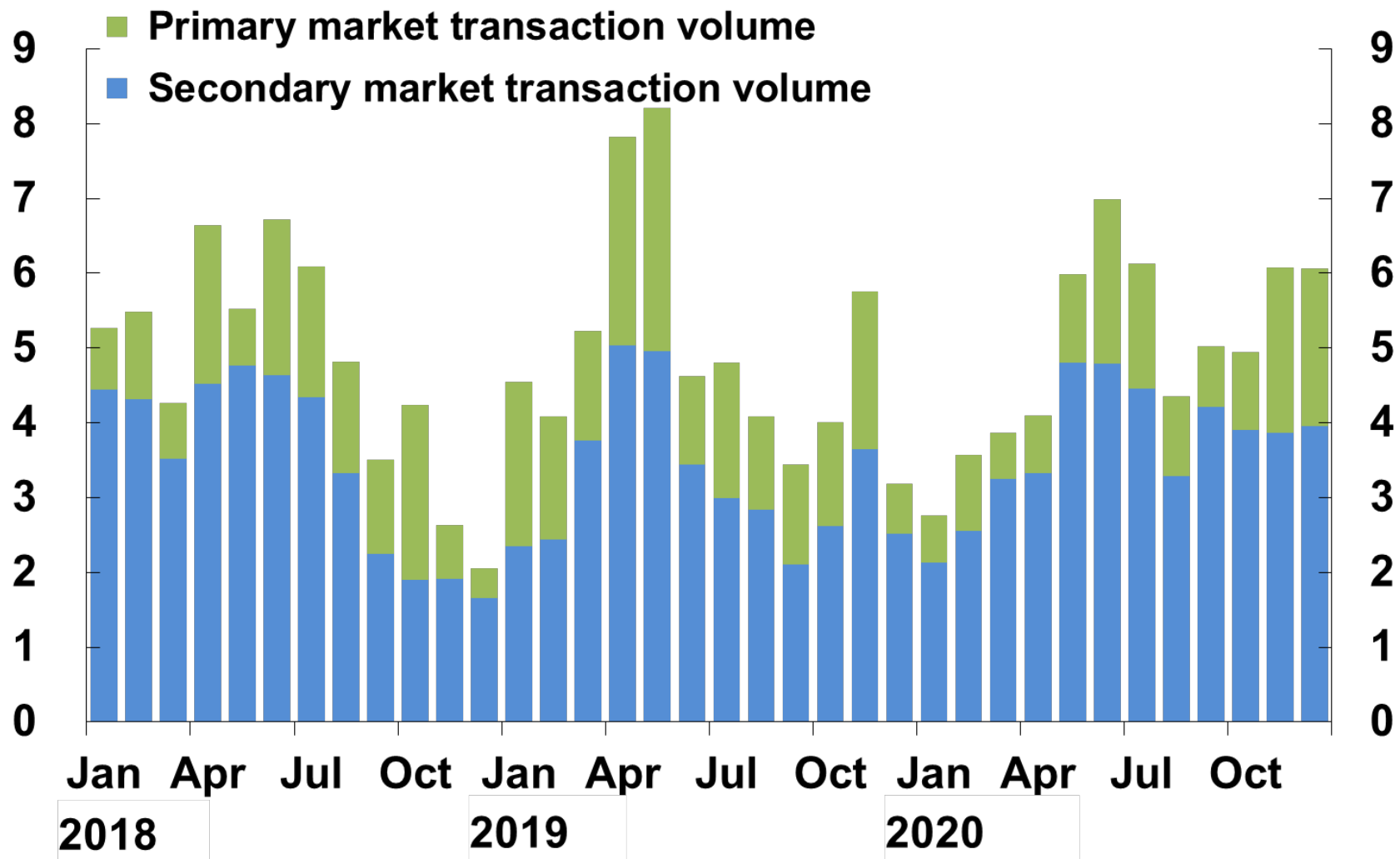
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(Jan 2017 = 100)





ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: PROPERTY TRANSACTIONS INCREASE

Number of transactions ('000)





HONG KONG'S FINANCIAL SECTOR REMAINS SOUND AND ROBUST

- The emergence of vaccines will help improve global economic outlook. Since it takes time for vaccines to be widely available, the evolving pandemic will continue to impact on the global economy in the short term
- While the geopolitical environment in the US and Europe becomes clearer, global geopolitics remain uncertain
- As we are still facing downside risks, the markets may experience huge swings and the public should manage the risks carefully
- Hong Kong's financial markets and the Linked Exchange Rate System continue to operate smoothly, showing that our financial system has strong fundamentals
- The HKMA will continue to closely monitor market situation and ensure financial stability in Hong Kong

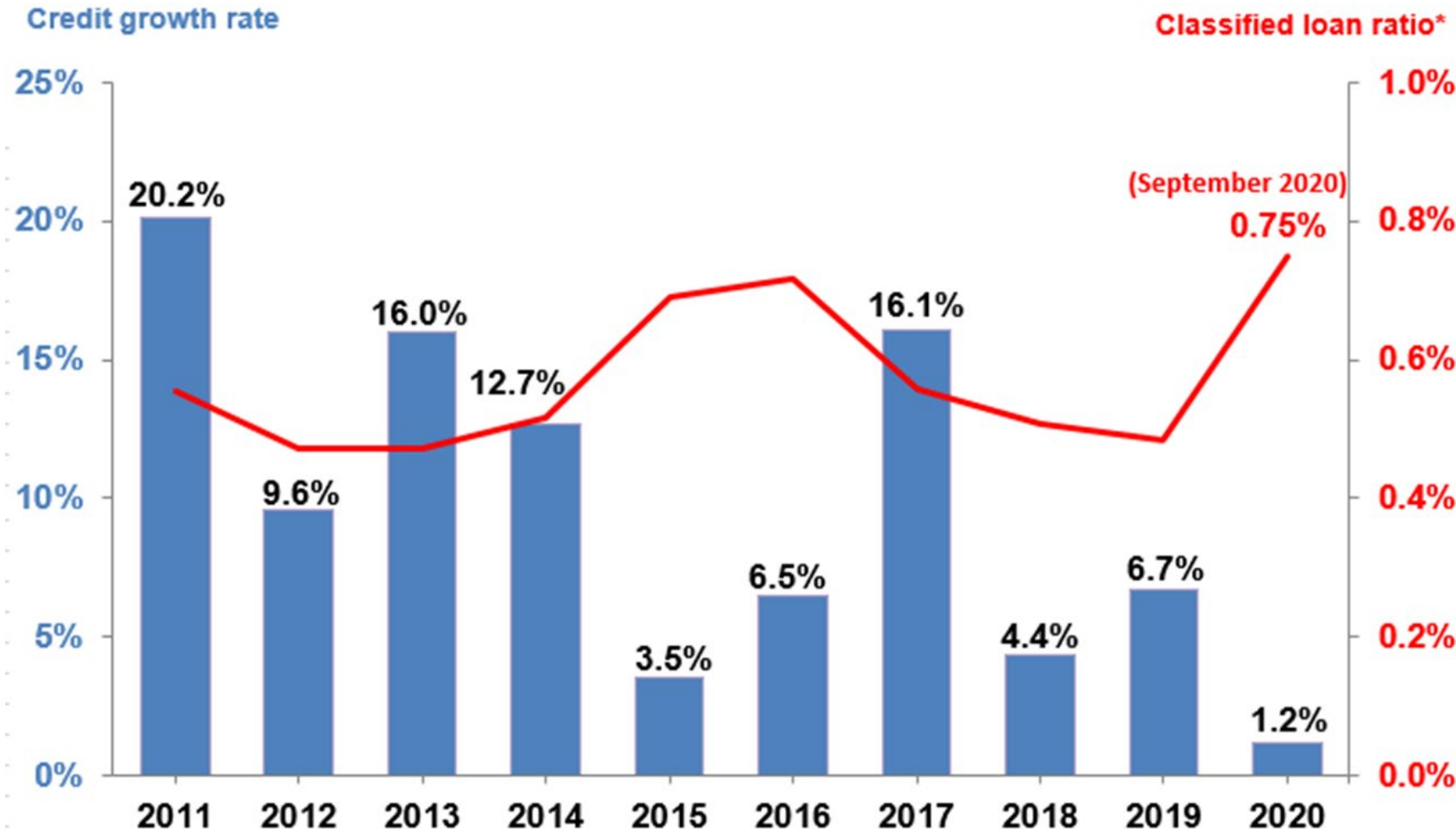


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BANKING SECTOR PERFORMANCE

Total loans grew slightly
while asset quality remains healthy



Note: * Classified loan ratio of retail banks

Source: HKMA



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

Extended Pre-approved Principal Payment Holiday Scheme

- Principal payments of eligible small and medium-sized enterprises (SMEs) deferred up to one year till April 2021

Enhanced SME Financing Guarantee Scheme

- Principal moratorium for 80% and 90% Guarantee Products deferred up to 18 months till March 2021
- Enhanced the Special 100% Loan Guarantee Scheme

- Aggregate number of cases involving credit relief (up to December 2020):
 - Corporate customers: 58,000 cases (HK\$740 billion)
 - Individual customers: 28,000 cases (HK\$44 billion)



LEGISLATIVE WORK

International Standards

2021

- Amendments to Banking (Capital) Rules – revised capital treatment on banks' equity investments in funds
- Amendments to Banking (Exposure Limits) Rules – technical refinements

2022

- Amendments to Banking (Capital) Rules – Basel III final reform package

Resolution Regime

- Conclusion on public consultation on rules on contractual stays on termination rights in financial contracts for authorized institutions (Stay Rules) was released in late December 2020. Draft text of the Stay Rules was also issued at the same time for industry consultation. Our current intention is to introduce the Stay Rules into LegCo in the first half of 2021



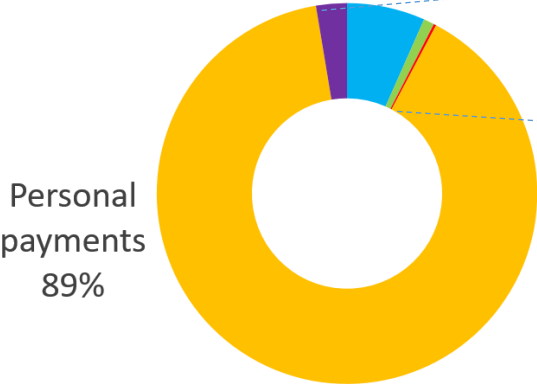
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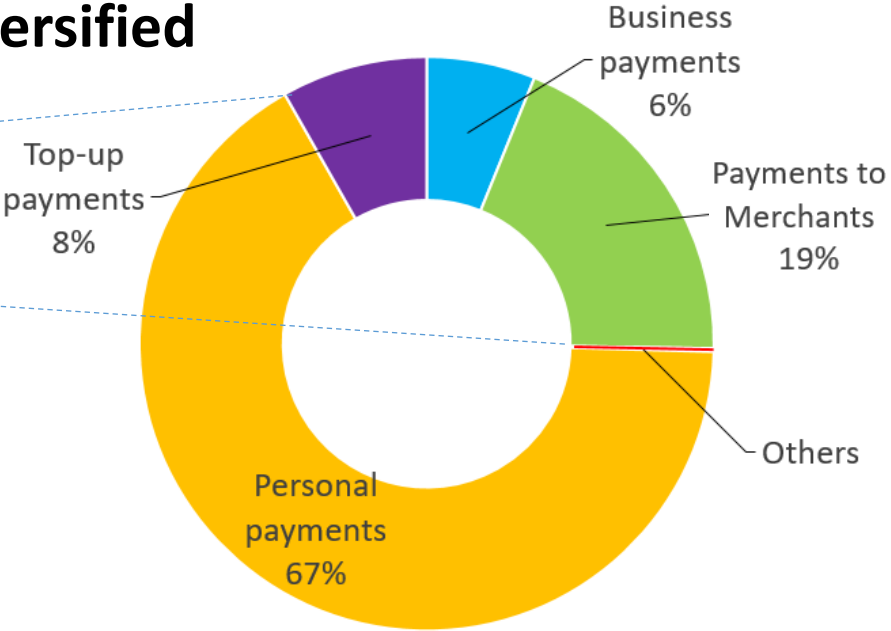
FASTER PAYMENT SYSTEM (FPS) in 2020

Registrations:	6.9 million (↑ 71% from end-2019)
No. of HKD transactions:	130 million (↑ 233% from 2019)
Value of HKD transactions:	HK\$1,339 billion (↑ 108% from 2019)

FPS usage diversified



Number of transactions in 2019



Number of transactions in 2020



LATEST FINTECH INITIATIVES

- Despite the pandemic, “Hong Kong Fintech Week 2020” successfully attracted over 1.2 million viewers from more than 130 economies
- Developing Commercial Data Interchange to enhance SMEs’ access to financial services
- Conducting Central Bank Digital Currency research on cross-border payments with the Bank for International Settlements Innovation Hub and the Bank of Thailand
- Started pilot run on the connection between eTradeConnect and the People’s Bank of China Trade Finance Platform



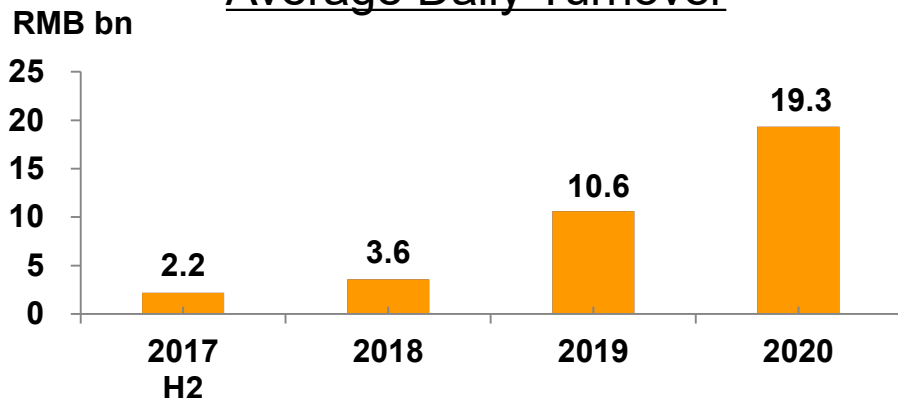
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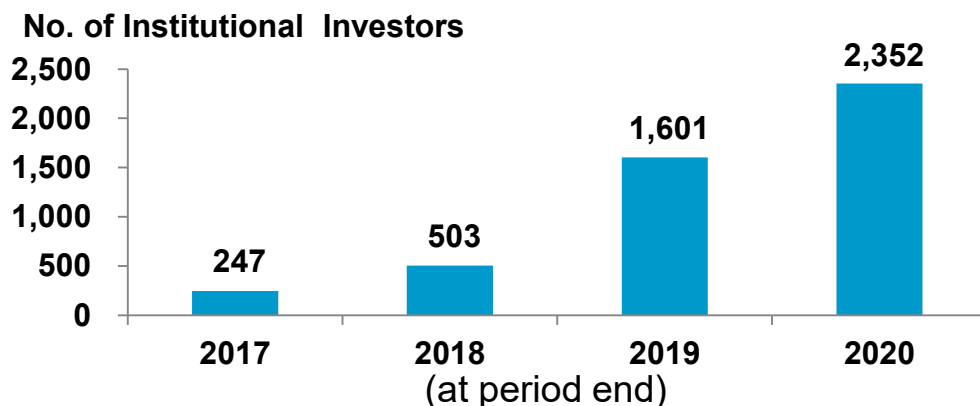
MUTUAL MARKET ACCESS SCHEMES OPERATE SMOOTHLY

- Trading under Bond Connect continued to thrive against increasing inclusion of RMB assets in global financial indexes

Average Daily Turnover



Number of Registered Institutional Investors



- The HKMA and People's Bank of China are studying the framework of Southbound Bond Connect
- Conducted two rounds of industry consultation on the implementation arrangements of Wealth Management Connect. Finalising the relevant details with regulators in the Mainland, Hong Kong and Macao for early launch of the scheme



DEVELOPING HONG KONG'S FINANCIAL PLATFORM – PRIVATE EQUITY (PE) FUND PLATFORM

- A new limited partnership regime for PE funds came into operation on 31 August 2020. Around 80 funds had been registered under the new regime by mid-January 2021. The HKMA is working with the Government to develop a legislative proposal to enable foreign funds to re-domicile to Hong Kong
- The HKMA has been working with the Government on the legislative proposal to provide tax concession for PE carried interest. The relevant bill will be introduced into the Legislative Council in February 2021



DEVELOPING HONG KONG'S FINANCIAL PLATFORM – GREEN FINANCE

- The Green and Sustainable Finance Cross-Agency Steering Group launched its green and sustainable finance strategy for Hong Kong in December 2020, setting out six key focus areas of risk management, disclosure, capacity building, innovation, Mainland opportunities and collaboration, as well as five nearer-term action points
- International Finance Corporation, a member of the World Bank Group, signed the Alliance for Green Commercial Banks (Alliance) partnership with HKMA in November 2020. The HKMA is a founding member and first regional anchor for the Asia Chapter of the Alliance
- The HKMA will assist the Government on additional green bonds issuances, to promote the development of green finance in Hong Kong



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INVESTMENT INCOME

| ← 2020 → | 2019 2018
(unaudited)

(HK\$ billion)	Full year	2H	1H	Full year	Full year
Bonds	92.5	17.8	74.7	114.5	57.4
Hong Kong equities*	4.0	23.6	(19.6)	22.1	(20.7)
Other equities	69.0	84.4	(15.4)	100.7	(38.7)
Foreign exchange#	9.6	34.0	(24.4)	(13.0)	(9.0)
Other investments@	22.7	28.4	(5.7)	37.9	21.9
Investment income	197.8	188.2	9.6	262.2	10.9

* Excluding valuation changes of the Strategic Portfolio.

This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio. This figure represents valuation changes up to the end of September 2020. Valuations of these investments from October to December are not yet available.



INCOME AND EXPENDITURE

	I ← 2020 → I (unaudited)			2019	2018
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Investment income	197.8	188.2	9.6	262.2	10.9
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	<u>(14.5)</u>	<u>(4.3)</u>	<u>(10.2)</u>	<u>(24.8)</u>	<u>(17.9)</u>
Net income/(loss)	183.5	184.0	(0.5)	237.6	(6.8)
Fee payment to Fiscal Reserves*#	(32.6)	(14.0)	(18.6)	(53.8)	(60.2)
Fee payment to HKSAR government funds and statutory bodies*	(11.5)	(5.7)	(5.8)	(9.0)	(13.8)

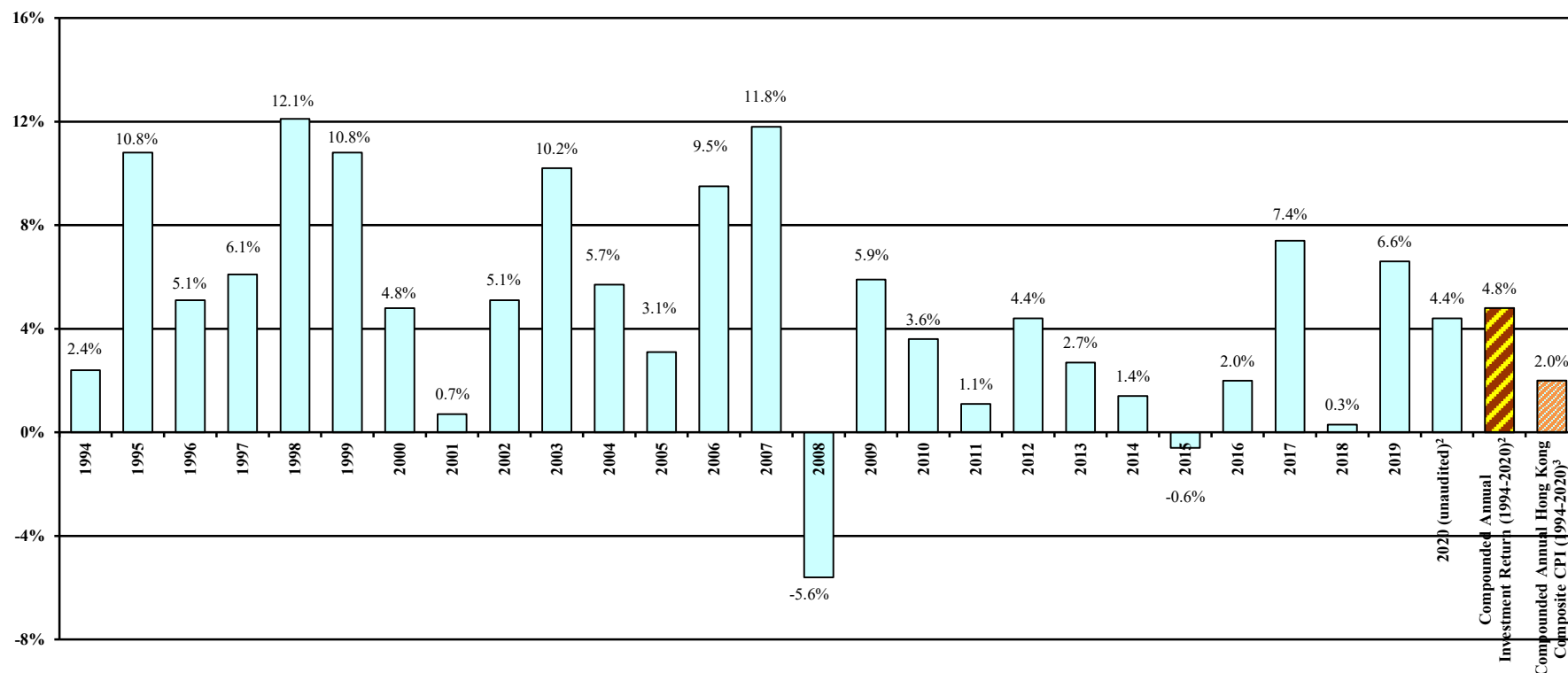
* The rate of fee payment is 3.7% for 2020, 2.9% for 2019 and 4.6% for 2018.

This does not include the 2020 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2020 is available.

(The composite rate was 8.7% for 2019 and 6.1% for 2018. Fee payable to the Future Fund was HK\$24.4 billion for 2019 and HK\$16.4 billion for 2018.)



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2020)¹



¹ Investment return calculation excludes the holdings in the Strategic Portfolio.

² The return includes the performance of LTGP up to the end of September 2020. The audited full year return will be disclosed in the annual report of 2020 to be released later this year.

³ Composite CPI is calculated based on the 2014/2015-based series.



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SME FINANCING GUARANTEE SCHEME

- Special 100% Loan Guarantee:
 - As of 15 January 2021, over 26,200 applications were approved, amounting to about HK\$41 billion. Among these applications, almost 9,000 benefited from the enhanced scheme, totalling about HK\$13 billion
 - During the period, around 16,400 applications have chosen the principal moratorium option
- 80% and 90% Guarantee Products:
 - In 2020, over 4,700 applications were approved, with total loan amount of about HK\$15 billion
 - Around 1,500 loans have chosen the principal moratorium option



MORTGAGE INSURANCE PROGRAMME (MIP)

- Revisions to MIP made with effect from 16 October 2019:
 - The cap on the value of a property eligible for the MIP has been raised (applicable to completed residential properties only)
 - A first-time homebuyer is still eligible to apply even if he or she cannot meet the stress test
 - The maximum debt-to-income ratio for all MIP loans is set at 50%
- As of 15 January 2021, around 38,000 applications under the new coverage were approved, with over 90% being first-time homebuyers
- Principal moratorium or extension of repayment schedules available to borrowers to help reduce their repayment burden